

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT ON EXAMINATION

of

VIVA HEALTH, INC.

BIRMINGHAM, ALABAMA

as of

DECEMBER 31, 2001

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EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
COUNTY OF JEFFERSON


Douglas T. Brown being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

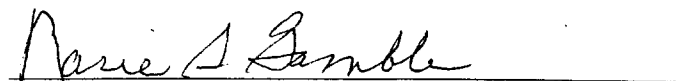
That an examination was made of the affairs and financial condition of Viva Health, Inc. for the period of January 1, 1999 through December 31, 2001;

That the following 48 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

And, that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.


Douglas T. Brown
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this day of May 7, 2003.


(Signature of Notary Public)

Marie S Gamble, Notary Public
Printed name

in and for the State of Alabama
My commission expires _____

NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Oct 25, 2004
BONDED THRU NOTARY PUBLIC UNDERWRITERS



**GOVERNOR
BOB RILEY**

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE
EXAMINATION DIVISION**

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**COMMISSIONER
Walter A. Bell**

**Chief Examiner
Richard L. Ford**

**State Fire Marshal
John S. Robison**

**General Counsel
Michael A. Bownes**

Birmingham, Alabama
May 7, 2003

Honorable Walter A. Bell
Commissioner of Insurance
State of Alabama
Department of Insurance
Post Office Box 303350
Montgomery, Alabama 36130-3350

Dear Commissioner Bell:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, an examination has been made of the affairs and condition of

**Viva Health, Inc.
Birmingham, Alabama**

as of December 31, 2001, at its home office located at 1400 21st Place South, Birmingham, Alabama 35205. The report of examination is submitted herewith.

Where the term, Company, appears herein without qualification, it is synonymous with Viva Health, Inc.

SCOPE OF EXAMINATION

The examination report herein covers the period from January 1, 1999 through December 31, 2001 and has been conducted by examiners representing the Alabama Department of Insurance. Events subsequent to December 31, 2001, have been reviewed as required and are reported herein as deemed appropriate.

The Company has been examined in accordance with the statutory requirements of the state of Alabama for a Health Maintenance Organization, and in accordance with applicable laws of the State of Alabama; Alabama Insurance Departmental regulations, bulletins and directives; and in accordance with the applicable guidelines and procedures of the NAIC; and in accordance with generally accepted examination standards.

The examination included a general review of the Company's operations, administrative practices and compliance with statutes and regulations. Income and disbursement items were tested for selected periods. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2001, as shown in the financial statements contained herein. However, the discussion of assets and liabilities contained in this report has been confined to those items which resulted in a change to the financial statements, or which indicated a violation of the *Alabama Insurance Code* and the Insurance Department's rules and regulations or other insurance laws or rules, or which were deemed to require comments and/or recommendations.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2001.

The market conduct phase of the examination consisted of a limited review of the Company's territory, plan of operation, policy forms and underwriting practices, advertising and marketing, compliance with agents' licensing requirements, compliance with privacy regulations, and the Company's compliance with the prompt pay act.

ORGANIZATION AND HISTORY

The Company was incorporated in the State of Alabama, as a health maintenance organization, on February 27, 1995, and was subsequently capitalized on September 11, 1995. The Company was formed as a wholly owned subsidiary of Triton Enterprises, LLC (Triton).

Triton was formed, simultaneously with the Company, by the University of Alabama at Birmingham (UAB) (75% owner) and JBL & Company (JBL) (25% owner). During 1996, JBL relinquished its ownership in Triton. Subsequently, the name of Triton was changed to Triton Health Systems, LLC; and, it has since been owned 99% by UAB and 1% by the UAB Educational Foundation.

CAPITAL AND SURPLUS

Sources of Capital and Surplus

At December 31, 2001, the Company's paid in capital consisted of \$100,000, derived from 10,000 shares of outstanding common stock, par value, \$10 per share. Gross paid in and contributed surplus consisted of \$13,236,995. Capital and surplus amounts were offset by an unassigned funds deficit of \$(5,472,348), resulting in total capital and surplus of \$7,864,647, at December 31, 2001.

The Company suffered an operating loss of \$(2,074,996) in 1999 and had operating gains of \$3,688,961 in 2000 and \$1,858,133 in 2001. The Company received surplus contributions from its parent in 1999 of \$2,318,000.

Changes in Capital Structure

With regard to the Company's capital stock, there were no changes in the number of shares authorized, issued, or outstanding, and the par during the examination period.

GROWTH OF THE COMPANY

The following schedule presents financial data, which reflects the growth of the Company for the years indicated:

| Year | Premium & Related Revenue | Admitted Assets | Liabilities | Capital & Surplus |
|-------------|--|----------------------------|--------------------|----------------------------------|
| 1998* | \$34,568,089 | \$ 8,970,098 | \$ 6,895,548 | \$2,074,550 |
| 1999 | 58,476,301 | 14,356,995 | 12,039,441 | 2,317,554 |
| 2000 | 59,246,705 | 18,976,491 | 12,969,976 | 6,006,515 |
| 2001* | 95,775,646 | 19,020,223 | 17,086,160 | 1,934,062 |

* Data for the years 1998 and 2001 are per the examination. Data for the remaining years was obtained from the Company's Annual Statements.

STATUTORY DEPOSITS

In accordance with the requirements of ALA. CODE § 27-21A-12 (1975), the Company maintained the following deposits with the State of Alabama, at December 31, 2001:

| | Par Value | Statement Value | Market Value |
|----------------------------------|----------------------|----------------------------|-------------------------|
| SouthTrust Bank, CD, | \$178,000 | \$178,000 | \$178,000 |
| First Commercial Bank, CD, 3.54% | <u>100,000</u> | <u>100,000</u> | <u>100,000</u> |
| Total | \$278,000 | \$278,000 | \$278,000 |

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed and found to provide for the operation of the Company in accordance with Alabama statutes and regulations. There were no changes made to the Company's Articles of Incorporation or Bylaws during the period of examination.

It was noted that Article I of the Company's Bylaws stated that the principal office of the Corporation shall be located at 1401 21st Street South, Birmingham, AL, County of Jefferson, 35205. According to the 2000 and 2001 Jurat pages, the Company's principal office address changed to 1400 21st Place South, Birmingham, AL 35205. The Company should amend its Bylaws to reflect the change of address.

The minutes of the meetings and actions of the Shareholder, Board of Directors, and Committees, from January 1999 through November 2002, were

reviewed and found to adequately document the actions of said corporate bodies, except as discussed in "Management and Control," which follows.

MANAGEMENT AND CONTROL

Shareholder

At December 31, 2001, the Company was wholly owned by Triton Health Systems, LLC (Triton) a for profit corporation. Triton was owned 99% by the University of Alabama at Birmingham and 1% by the UAB Educational Foundation, both not-for-profit entities.

According to Article II, Section 1 of the Company's Bylaws, the Company is required to have an annual meeting of the shareholders in order to elect directors and conduct other business. Upon review of the corporate minutes, only one occurrence of an Action by Written Consent of the sole shareholder of VIVA Health, Inc. was provided for the period of examination. The action was taken on July 21, 2000, and the Company's directors were elected at that time. No other shareholder meetings were documented for the examination period. The Company should take steps to ensure compliance with its Bylaws with regard to an annual meeting of the shareholder.

Board of Directors

The Company's Bylaws stipulated that its business and affairs shall be managed under the direction of a Board of Directors. On July 21, 2000, by resolution of the sole Shareholder, persons filling the following positions were to be elected directors of the Company:

CEO, UAB Health System
CFO, UAB Health System
President, University of Alabama at Birmingham
CEO, VIVA Health, Inc.
At-Large Member

This resolution further designated Richard Margison, Vice President for Financial Affairs and Administration, University of Alabama at Birmingham, as the At-Large Member.

Directors serving at December 31, 2001, in accordance with the July 21, 2000 resolution of the Shareholder, were as follows:

| | |
|--|---|
| <u>Director/Residence</u> | <u>Principal Occupation</u> |
| David Jeffrey Fine Birmingham, Alabama | CEO, UAB Health Systems |
| Stephen Alan Pickett Birmingham, Alabama | CFO, UAB Health Systems |
| Wynetka Ann Reynolds, Ph.D. Birmingham, Alabama | President, UAB |
| Arthur Bradford Rollow Birmingham, Alabama | President and CEO, VIVA Health, Inc. |
| Richard Lee Margison Birmingham, Alabama | Vice President of Financial Affairs and Administration, UAB (At-Large Member) |

According to Article II, Section 2 of the Company's Bylaws, "each director shall hold office until the next annual meeting of the shareholders and until his or her successor shall have been elected and shall qualify." The Company provided no evidence that the Directors were re-elected annually. Thus, the Company was not in compliance with its Bylaws with regard to holding an annual shareholders' meeting with the purpose of electing Directors for the period of examination. The Company should take appropriate actions to comply with its Bylaws with regard to the annual election of Directors.

Also according to Article II, Section 1 of the Company's Bylaws, "the Board of Directors shall fix the time and place of the annual shareholders meeting." A review of the Board minutes revealed no such action taken by the Board during the period of examination. The Company should take appropriate action to comply with its Bylaws with regard to the Board's designation of time and place of the annual shareholder's meeting.

Committees

At December 31, 2001, the following committees reported to the Board of Directors:

- Utilization Management/Quality Improvement (UM/QI) Committee
- Pharmacy & Therapeutics (P&T) Committee
- Credentialing Committee
- Compliance Committee

Utilization Management/Quality Improvement (UM/QI) Committee

The UM/QI Committee was established by the Company's Board of Directors as a standing committee of the Company. The UM/QI Committee has responsibility for implementing the UM/QI programs and serving as the coordinating and advisory body. The UM/QI Committee is comprised of physicians representing the various specialties utilized by health plan members. Physicians are appointed for three-year terms and memberships are staggered in order to provide continuity of membership.

The following were members of the UM/QI Committee at December 31, 2001:

- Emily Boohaker, MD, Chairman/Medical Director
- James Bonner, MD
- John Farley, MD
- Andrew Duxberry, MD
- John Gleysteen, MD
- Harry Register, MD
- Don Overstreet, MD
- Mark Lejeune, MD
- Nathan Smith, MD
- Larry Kilgore, MD

Pharmacy and Therapeutics (P&T) Committee

The P&T Committee is an advisory group that serves as an advisor and liaison between the health plan and health care providers with regard to drug evaluation, selection, use, and education matters. The P&T Committee is a policy-recommending body for matters related to the therapeutic use of drugs. The P&T Committee's minimum composition consists of three physicians, one pharmacist, one nurse and an administrator.

The following were members of the P&T Committee at December 31, 2001:

- Cynthia Moore-Sledge, MD
- Harry Register, MD
- Mark W. Todd, Doctor of Pharmacy, FASHP
- Emily Boohaker, MD
- Michele Polgar, Registered Pharmacist, MBA
- Karen Knight, RN, Certified Case Manager

W. Winn Chatham, MD
Jack Averitt, MD

Credentialing Committee

The Credentialing Committee was established by the Company's Board of Directors as a standing committee of the Company and as a subcommittee of the UM/QI Committee. The Credentialing Committee has responsibility for making physician and facility credentialing recommendations to the Board.

The following were members of the Credentialing Committee at December 31, 2001:

Emily Boohaker, MD
Rodney Tucker, MD
Richard Lytle, MD
Sally Ebaugh, MD
Lisa Columbia, MD

Compliance Committee

The Compliance Committee is responsible for creating and updating the annual compliance plan for compliance with state and federal authorities and regulations. The Compliance Committee educates the staff on compliance matters, investigates and addresses compliance concerns, and conducts internal reviews and audits to determine adherence to the Compliance Plan. The members of the Compliance Committee are a cross-section of Company employees with various seniority and responsibility levels.

The following were members of the Compliance Committee at December 31, 2001:

Libba Yates - Compliance Officer
Myra Collier - Compliance Coordinator
Cindy Holmes
Hope Kilgore
Donna Thornton
Angela Alexander
Mark Levins
Brad Lindsey
David Fort
Charity Dempsey

Officers

Officers of the Company as elected on June 27, 2001 and serving at December 31, 2001 were as follows:

Arthur Bradford Rollow, President
Richard Lee Margison, Secretary
David Jeffrey Fine, Chairman of the Board
Letitia Eubanks Watkins, CFO, COO
Henrik Paul Ohldin, Comptroller
Libba Yates, Vice President of Corporate Development
Scott McDuffie, Vice President of Sales
Doug Cannon, Vice President of Information Systems

Upon review of the Company's Board of Directors' meeting minutes, the following elections of officers were noted:

On August 3, 1999, the Chairman of the Board and the Secretary/Treasurer were elected. No other officers were elected at that time. On June 27, 2001 all of the Corporate and Company officers were elected.

According to Article IV, Section 2 of the Company's Bylaws, "the officers of the Corporation are to be appointed annually at the first meeting of the Directors held after each annual meeting of the shareholders." Only one complete election of the Company's officers was noted during the period under examination. The Company should take steps to ensure compliance with its Bylaws with regard to the annual election of officers. This was also recommended in the prior examination.

Also according to Article IV, Section 7 of the Company's Bylaws, the Treasurer shall be the principal financial officer of the Company. A review of the Company's minutes revealed that Richard Margison was elected Secretary/Treasurer on August 3, 1999 and again on June 27, 2001 while the Chief Operating Officer/Chief Financial Officer during the same period was Letitia Watkins. According to Article IV, Section 7, the Chief Financial Officer should also be the Treasurer of the Company. The Company should take appropriate actions as necessary to ensure compliance with its Bylaws with regard to the principal financial officer of the Company functioning as the Treasurer.

Conflict of Interest

Following the recommendations made in the prior examination, the Company expanded the Conflict of Interest Policy to provide more complete disclosures to the Board of Directors. The revised Conflict of Interest Policy was approved by the Board of Directors on September 24, 2001. The Company requires all Directors, Officers, committee members, and employees to sign an annual disclosure.

A review was conducted of the 1999, 2000, and 2001 disclosures signed by the Company's Directors, Officers, and employees. The Company was unable to provide a signed disclosure statement for one Director, Richard Margison, for 2000 and 2001. Each of the conflicts noted in the disclosure statements for 1999, 2000, and 2001 were approved by the Board of Directors, and there were no conflicts of interest noted which could potentially have an adverse effect on the operation of the Company.

HOLDING COMPANY AND AFFILIATE MATTERS

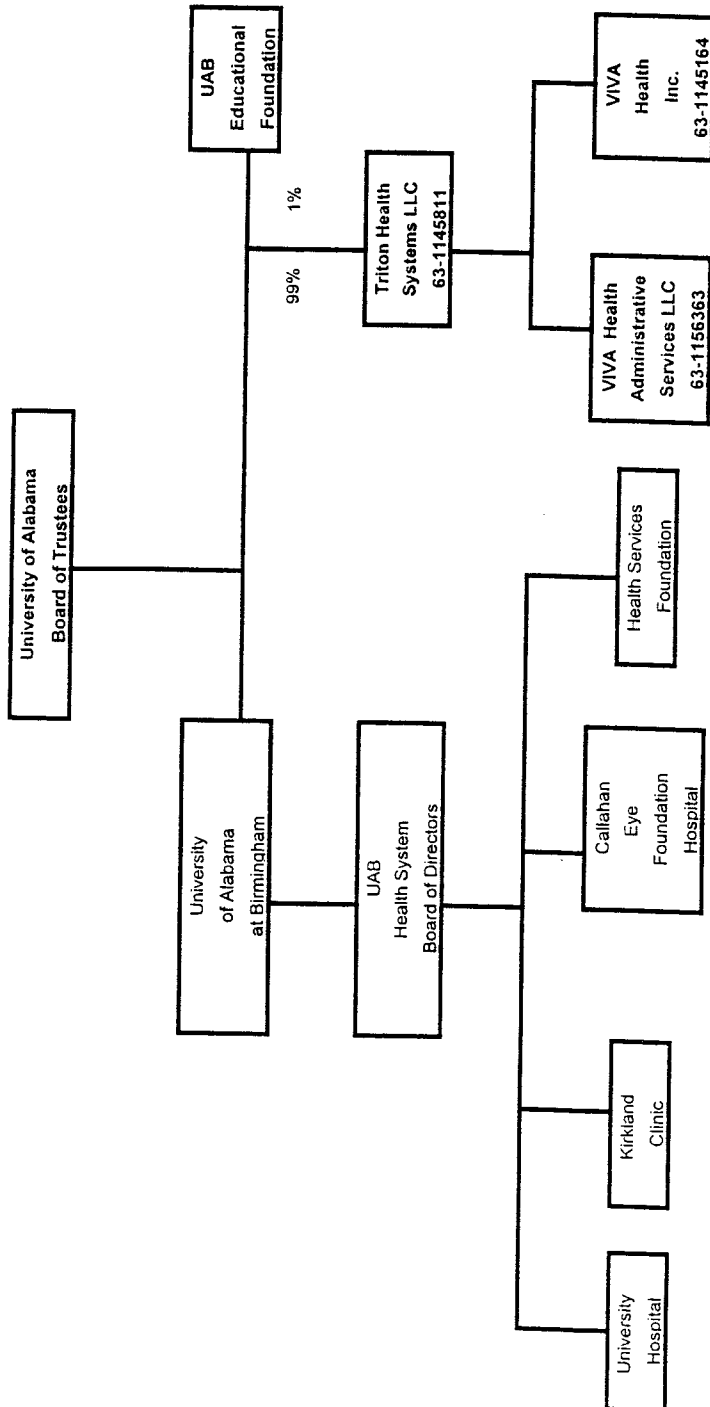
Holding Company Registration

The Company was not subject to the *Alabama Insurance Holding Company Regulatory Act*, as defined in ALA. CODE § 27-29-1 (1975), except as expressly required by other statutes and regulations. Generally, HMOs are subject to regulation in regard to changes in control, but are not subject to the continuing holding company reporting requirements that apply to insurance companies.

Since its inception, the Company's ultimate parent has been the University of Alabama at Birmingham (UAB), a not for profit entity. Throughout the examination period and through the date of this report, the Company has been a wholly owned subsidiary of Triton Health Systems, LLC (THS), a limited liability, for profit entity. During the same period, THS has been owned 99% by UAB and 1% by the UAB Educational Foundation, also a not for profit entity.

Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System at December 31, 2001:



Management Services Agreement

Since its inception, the Company has operated via a "Management Services Agreement" (the agreement) with its parent, Triton Health Systems, Inc. (THS). A revised Agreement became effective on June 1, 2001 and serves to replace the original Management Agreement. The term for this Agreement shall continue in effect for a one-year term, automatically renewing for additional one-year terms, unless terminated by either party with written notice at least thirty (30) days prior to expiration. The Department of Insurance in July 2001 approved the agreement.

On behalf of VIVA, Triton Health Systems, L.L.C. will provide certain management services and pay for certain monthly expenses. Any direct expenses that are acquired by Triton on VIVA's behalf will be reimbursed by VIVA. Triton will provide VIVA with overhead through the assessment of a monthly management fee. All direct expenses that are identified as exclusively benefiting VIVA will be recorded by Triton on its accounting records and charged to VIVA. The management fee is based on, but not limited to, general management, personnel management, human resources, facility management, purchasing, accounting, finance, and legal services. The management fee is due monthly.

Direct Expenses

Any non-healthcare expense including personnel that can be proven to benefit VIVA will be charged to VIVA within the accounting records of Triton. Any other expenses that will directly benefit VIVA or VIVA Health Administration, L.L.C. will also be accumulated for within the Triton accounting records. These expenses will be accumulated and totaled at the end of the month. This amount will then be allocated to VIVA and VIVA Health Administration based on each company's relative membership as a percentage of total monthly membership. These direct expenses are due monthly. Direct expenses anticipated to be paid by Triton on VIVA's behalf include, but are not limited to, personnel services, supplies and materials, travel and entertainment, communication services, professional and consulting services, bank charges, advertising, insurance, business licenses, franchise taxes, etc.

Indirect Expenses

Triton expects that VIVA will benefit from the administrative expenses and overhead that it pays on VIVA's behalf, which is covered by VIVA's management fee. The administrative expenses and overhead include personnel services, supplies and materials, postage and mail, legal, audit, accounting and

other consulting services, cleaning, janitorial, landscape and lawn care services, equipment maintenance, repairs, and utilities, interest expense, payments for return on preferred units, payments for return of preferred units, management fee expenses assessed to Triton, insurance expense, depreciation expense, rent for space and storage, computer system support and services, and other services and expenses. VIVA and VIVA Administrative will be assessed a monthly management fee for the Company's proportionate share of overhead and administrative costs. The management fees for the overhead and administrative costs of Triton will be \$19 per member per month, not to exceed 10% of total annual premium. These indirect expenses are due monthly.

EMPLOYEE WELFARE

All individuals who performed administrative and operational functions for the Company were employees of Triton Health Systems, LLC via a management services agreement. This agreement was discussed in detail in the "HOLDING COMPANY AND AFFILIATE MATTERS" section of this report under the Management Services Agreement caption.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2001, the Company's fidelity bond coverage was included in a crime insurance policy issued through Executive Risk Indemnity, Inc. The Company had liability coverage for each of the following: 1) employee theft 2) counterfeit money, forgery, and alteration 3) computer theft and funds transfer. At December 31, 2001, the Company had coverage in excess of the NAIC's suggested minimum amount of fidelity insurance.

The Company's fidelity bond in effect at December 31, 2001 included a one-year extended discovery period as required by ALA. CODE § 27-21A-6b (1975); however, the fidelity bond did not contain the cancellation provision for bonds written with less than a three-year discovery period as required by ALA. CODE § 27-21A-6b (1975).

In addition to the aforementioned fidelity bond, the following policies or coverages were maintained by or on behalf of the Company at December 31, 2001:

- Property Insurance, EDP, and Liability Insurance
- Commercial Umbrella Liability Policy

- Workers Compensation and Employer's Liability Policy
- Non-Owned/Hired Auto Liability Policy
- Professional Liability/Excess Professional Liability Policy

REINSURANCE

During the course of this examination, the agreements in effect were reviewed with regards to type, limits, and pertinent safeguards. The Company ceded reinsurance under specific excess liability reinsurance agreements. The following reinsurance contracts were applicable at December 31, 2001.

Standard Security Life Insurance Company of New York

The Company entered into an agreement with Standard Security Life Insurance Company of New York, New York on January 1, 2001 to secure coverage for a variety of services.

For eligible hospital services, the deductible amount for such reinsurance coverage for each Commercial member is a \$100,000 and \$125,000 for Medicare member. Eligible inpatient hospital services are subject to an average per day continuous confinement maximum of \$2,000, not including operating room. Outpatient charges, extended care facility, rehabilitation facility and home health care are all included only when in lieu of a hospital confinement and when less costly than hospital confinement. It was noted that the agreement excludes all coverage relating to physician services.

The agreement has additional coverage by means of endorsement, which includes Commercial and Medicare Members continuation of coverage in event of the reinsurer is insolvency. The agreement also provides an out of area conversion for Commercial Members only.

Once the deductible has been reached for an individual in an agreement year, the Company will reinsure Eligible Hospital Services and Eligible Professional Services in accordance with the terms and limits of the agreement. The Company will also apply coinsurance to all Eligible Hospital Services and Eligible Professional Services based on the following percentages:

- (a) 90% of Eligible Hospital Service for Per Diem or Fixed Procedural Fee including Out of Area Emergency.

- (b) 0% of Eligible Hospital Services related to organ and bone marrow transplants performed in an approved fixed fee facility.
- (c) 80% of Eligible Hospital Services for all other hospital services including out of area emergency.
- (d) 0% of Eligible Professional Services.

The maximum reinsurance coverage payable under the agreement, during any agreement year, for all eligible hospital services and eligible professional services for each member is \$1,000,000 less the deductible.

There were no maximum benefit limitations that the Company would pay on a member in his or her lifetime. However, the reinsurance contract specified a maximum lifetime amount of \$2 million per member.

Zurich American Insurance Company

The Company has a blanket critical care policy with Zurich American Insurance Company, of which Special Risk International is the program administrator. The policy provides coverage and benefits for medical care and treatment at 100% for organ and tissue transplants in network.

The maximum benefit per member per lifetime for all organ and tissue transplants is \$1 million.

There were no maximum benefit limitations the Company would pay on a member in his or her lifetime. The reinsurance contract specified a maximum amount of \$1 million per member.

No reserve credits were taken for reinsurance ceded by the Company during the examination period.

A review of the Schedule S determined that the Company did not complete Part 1 - Section 1, Part 2 and Part 3 - Section 2 in accordance with the NAIC 2001 Annual Statement Instructions as required by the Alabama Department of Insurance Regulation Number 97.

MARKET CONDUCT

The Alabama Department of Public Health (ADPH) regulates most aspects of the Company's relations and dealings with its customers. ADPH conducted a survey of the Company, which was dated February 5-9, 2001. The survey report issued by ADPH reflected some deficiencies, which were not determined to have an adverse affect on or indicate misstatement of any financial account balances or significant non-compliance with Alabama Dept of Insurance statutes or regulations.

Due to the Company's regulation by ADPH, claimant grievance procedures and other market conduct items, the examiners performed a limited review of market conduct activities in this examination.

Advertising and Marketing

The Company's advertising and marketing strategy was based on a grassroots campaign, where the Company's advertising focused on the basics of health care and a good image for the Company. The Company's advertising materials included the Company's name and address and identified what policy was being advertised. The examiner determined that the Company's advertising materials did not misrepresent policy benefits forms or conditions, make unfair or incomplete comparisons with other policies, or make false, deceptive or misleading statements or representations.

Complaint handling

The Company did not provide its enrollees, at any point during the complaint appeal process, with the telephone number for the consumer complaint division at the Alabama Department of Insurance. This was not in accordance with the NAIC Market Conduct Examiners Handbook- Complaint Handling, Standard 2, which states that the "Company should provide the insurance department's complaints telephone number for consumers."

It was noted, when reviewing the Alabama Department of Public Health's report dated February 5-9, 2001, that two out of three formal complaints by the members, were not notified within the required time frame of 5 working days from the decision. The Alabama Department of Public Health also noted that there was not evidence that the plan actively elevates inquiries to informal complaint status if the enrollee is not satisfied with the outcome of the inquiry.

The Company did, otherwise, have a satisfactory complaint and appeal handling process.

Territory and Plan of Operation

The Company was only authorized to transact business in the state of Alabama as of December 31, 2001. The certificate of authority from the respective state was inspected and determined to be in order. The Company was licensed to write its products in the following counties:

| | | | | |
|---------|---------|-----------|------------|------------|
| Autauga | Chilton | Dallas | Marion | St. Clair |
| Baldwin | Clarke | Elmore | Mobile | Tuscaloosa |
| Bibb | Conecuh | Etowah | Monroe | Washington |
| Blount | Cullman | Jefferson | Montgomery | |
| Calhoun | Dale | Madison | Shelby | |

Plan of Operation/Compliance with Agents' Licensing Requirements

The Company used various agents to sell its products at December 31, 2001. All agents were licensed by the Alabama Department of Insurance. Only licensed agents were used to sell its policies across the state of Alabama. The Company had a total of 124 agents, 12 appointed and employed by the Company and 112 appointed by the Company. The Company utilized 25 agencies, which were licensed.

Compliance with Prompt Pay Act

A review of the Company's paid claims determined that all clean claims were paid within the time limits set forth in the ALA. CODE § 27-1-17(a) (1975).

Compliance with ALA. ADMIN. CODE § 482-1-122

In accordance with ALA. ADMIN. CODE § 482-1-122, Article II, Section 5 A:

"...A licensee shall provide a clear and conspicuous notice that accurately reflects its privacy policies and practices..."

Under Section 15 of the aforementioned regulation:

"The requirement for initial notice in Section 5 A (2), the opt out in Sections 8 and 11, and service providers and joint marketing in

Sections 8 and 11, and service providers and joint marketing in Section 14 do not apply if the licensee discloses nonpublic personal financial information as necessary to effect, administer or enforce a transaction that a consumer requests or authorizes..."

"B. 'Necessary to effect, administer or enforce a transaction' means that the disclosure is ... (2) Required, or is a usual, appropriate or acceptable method of ... (c) To provide a confirmation, statement or other record of the transaction, or information on the status or value of the insurance product or service to the consumer or the consumer's agent or broker... (e) To underwrite insurance at the consumer's request or for any of the following purposes as they relate to a consumer's insurance: account administration, reporting, investigating or preventing fraud or material misrepresentation, processing premium payments, processing insurance claims, administering insurance benefits (including utilization review activities), participating in research projects or as otherwise required or specifically permitted by federal or state law."

The Company was, however, required under Section 7 C (5) of the aforementioned regulation to supply its customers with simplified notices stating that the Company engages in disclosing some of their information to a third party. These notices should simply state this, in addition to the requirements under Section 7 A (1), A (8), A (9), and B.

Sec. 164.534 of Title 45, Code of Federal Regulations, was amended as follows:

"2. Section 164.534 of Subpart E of 45 Code of Federal Regulation Part 64 is revised to read as follows:

Sec. 164.534 Compliance dates for initial implementation of the privacy standards.

(b) Health plans. A health plan must comply with the applicable requirements of this subpart no later than the following as applicable:

(1) Health plans...April 14, 2003."

The Company was not required to send privacy notices until April 14, 2003.

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained on electronic data processing equipment. Management and record-keeping functions were performed by personnel of Triton Health Systems, LLC. under a management and service agreement. Further discussion on the aforesaid agreement is included in this report under the caption "HOLDING COMPANY AND AFFILIATE MATTERS - Management and Service Agreements" elsewhere in this report.

The Company was audited annually by the independent certified public accounting (CPA) firm of PriceWaterhouseCoopers, Birmingham, Alabama, which conducted all of the Company's audits for the three-year period covered by this examination.

The Company's reserve calculations for 2001 were certified by Jerrold Dubner, A.S.A., M.A.A.A of PricewaterhouseCoopers LLP, Atlanta, Georgia.

The Company was unable to provide the detail supporting a wire transfer from an affiliated company for a Commercial Unearned Premium of \$850,000. The Company provided the examiners with the wire request and evidence of the actual bank deposit. Also, see "NOTES TO FINANCIAL STATEMENTS," *Note 9 - Premiums Received in Advance*, elsewhere in this report.

It was noted that the Company did not maintain detail records to reconcile its amortization bond discounts and premiums to the general ledger. Also, see "NOTES TO FINANCIAL STATEMENTS," *Note 1 - Bonds*, elsewhere in this report.

The Company did not maintain detailed records that were readily available that reconciled to its filed Annual Statement Underwriting and Investment Exhibit Part 2. Also, see "NOTES TO FINANCIAL STATEMENTS," *Note 8 - Claims Unpaid*."

Internal Financial and Data Records

The Company's personal computer based network system appears to have appropriate capacity to meet the Company's needs. Various software packages are available within the Company's network system including the general ledger software, which is maintained separately. The Company's policyholder and member accounts and records are maintained primarily via a time-share lease

with CSC-TXEN, Birmingham, Alabama (CSC). The Company accesses a CSC-TXEN, AS 400 network through the Company's own network system.

The Company could not provide evidence that CSC-TXEN maintained fidelity bond coverage to cover losses due to actions by their personnel or that CSC-TXEN carried insurance coverage to restore loss of Company records due to mishap.

Detailed discussions and additional commentary on all these matters may be found in the "NOTES TO FINANCIAL STATEMENTS" and "COMMENTS AND RECOMMENDATIONS" section of the examination report, under the specific captions to which they pertain.

ALA. CODE § 27-27-29(a) (1975), as amended, provides as follows:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs..."

FINANCIAL STATEMENTS

Financial statements included in this report, which reflect the financial condition of the Company at December 31, 2001, and its operations for the years under examination, consist of the following:

| | <u>Page</u> |
|---|-------------|
| Statement of Assets, Liabilities, Capital and Surplus | 22 and 23 |
| Statement of Revenue and Expenses | 24 |
| Statement of Reconciliation of Capital and Surplus | 25 |

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

VIVA Health, Inc.
STATEMENT OF ASSETS
For the Year Ended December 31, 2001

| | <u>Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> | <u>Prior Year Net Admitted Assets</u> |
|--|----------------------------|------------------------------------|--------------------------------|---|
| ASSETS | | | | |
| Bonds (Note 1) | \$10,216,777 | \$ 944,586 | \$ 9,272,191 | \$ 5,478,305 |
| Cash and short-term investment (Note 2) | 14,501,214 | 7,307,227 | 7,193,987 | 12,025,803 |
| Aggregate write-ins for invested assets | | | | 278,000 |
| Accident and health premiums due and unpaid (Note 3) | 50,232 | | 50,232 | 309,837 |
| Health care receivables (Note 4) | 310,192 | 169,949 | 140,243 | 98,726 |
| Investment income due and accrued (Note 5) | 168,193 | | 168,193 | 72,132 |
| Amounts due from parent, Subsidiaries and affiliates (Note 6) | 1,329,200 | | 1,329,200 | 678,065 |
| Aggregate write-ins for other than Invested assets | 0 | | | 35,623 |
| Federal and foreign income tax recoverable and interest (Note 7) | <u>866,177</u> | <u>0</u> | <u>866,177</u> | <u>0</u> |
| Total assets | <u>\$27,441,985</u> | <u>\$8,421,762</u> | <u>\$19,020,223</u> | <u>\$18,976,491</u> |

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS
IN THIS REPORT ARE AN INTERGRAL PART THEREOF.

VIVA Health, Inc.
STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
For the Year Ended December 31, 2001

| | <u>Covered</u> | <u>Uncovered</u> | <u>Total</u> | <u>Prior Year Total</u> |
|--|----------------|------------------|---------------------|-----------------------------|
| Liabilities: | | | | |
| Claims unpaid (Note 8) | \$ 4,210,300 | \$681,700 | \$ 4,892,000 | \$ 5,675,636 |
| Unpaid Claims adjustment expenses | 2,671,827 | | 2,671,827 | 2,102,169 |
| Premiums received in advance (Note 9) | 8,271,287 | | 8,271,287 | 4,772,500 |
| General expenses due or accrued | 553,915 | | 553,915 | |
| Amounts due to parent, subsidiaries and affiliates (Note 6) | 335,731 | | 335,731 | 345,771 |
| Aggregate write-ins for other liabilities (Note 10) | <u>361,400</u> | <u>0</u> | <u>361,400</u> | <u>73,900</u> |
| Total Liabilities | \$16,404,460 | \$681,700 | \$17,086,160 | \$12,969,976 |
| Capital and Surplus: | | | | |
| Common Capital Stock | | | \$ 100,000 | \$ 100,000 |
| Gross paid in and contributed surplus | | | 13,236,995 | 13,236,995 |
| Surplus notes | | | | |
| Aggregate write-ins for other than special Surplus funds | | | | 0 |
| Unassigned funds (surplus) (Note 11) | <u>XXX</u> | <u>XXX</u> | (11,402,933) | (7,330,480) |
| Total capital and surplus | <u>XXX</u> | <u>XXX</u> | <u>\$ 1,934,062</u> | <u>\$ 6,006,515</u> |
| Total liabilities, capital and surplus | <u>XXX</u> | <u>XXX</u> | <u>\$19,020,223</u> | <u>\$18,976,491</u> |

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS
IN THIS REPORT ARE AN INTERGRAL PART THEREOF.

VIVA Health, Inc.
STATEMENT OF REVENUE AND EXPENSES
For the Year Ended December 31, 2001, 2000 and 1999

| | <u>Uncovered</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|--|------------------|-------------------|-------------------|--------------------|
| MEMBER MONTHS | XXX | 395,676 | 356,100 | 449,686 |
| Net premium income | XXX | 95,760,312 | 59,242,644 | 52,262,256 |
| Aggregate write-ins for other health care related revenues | XXX | <u>15,334</u> | <u>4,061</u> | 5,611,230 |
| Aggregate Write-ins for other Health Care Related Revenues | | | | <u>602,815</u> |
| Total revenues | XXX | <u>95,775,646</u> | <u>59,246,705</u> | <u>58,476,301</u> |
| Medical and Hospital: | | | | |
| Hospital/medical benefits | 6,625,673 | 64,801,679 | 35,317,418 | 31,889,405 |
| (Note 4) and (Note 10) | | | | |
| Other Professional Services | 142,610 | 1,426,099 | 825,801 | 814,439 |
| Emergency room and out-of-area | 131,156 | 1,311,563 | 1,318,665 | 1,100,470 |
| Aggregate Write-ins for other | 653,993 | 6,539,928 | 9,172,600 | 18,955,199 |
| Medical and Hospital Incentive Pool and Withhold | <u>245,488</u> | <u>2,454,878</u> | <u>1,881,119</u> | <u>852,578</u> |
| Adjustments | | | | |
| Subtotal | 7,798,920 | 76,534,147 | 48,515,603 | 53,612,091 |
| Less: | | | | |
| COB and subrogation | | | | 4,300 |
| Net reinsurance recoveries incurred | | <u>24,826</u> | <u>256,302</u> | <u>98,257</u> |
| Total medical and hospital | 7,798,920 | 76,509,321 | 48,259,301 | 53,509,534 |
| General administration expenses | | 16,809,445 | 8,125,750 | 7,041,763 |
| Total underwriting deductions | 7,798,920 | 93,318,766 | 56,385,051 | 60,551,297 |
| Net underwriting gain or (loss) | XXX | 2,456,880 | 2,861,654 | |
| Net investment income earned | XXX | 986,858 | 827,307 | |
| Net realized capital gains or (losses) | | | | |
| Net investment gains or (losses) | | 986,858 | 827,307 | |
| Net income or (loss) | | 3,443,738 | <u>3,688,961</u> | <u>(2,074,996)</u> |
| Federal and foreign income taxes incurred | XXX | <u>130,554</u> | | |
| Net income (loss) | XXX | 3,313,184 | 3,688,961 | <u>(2,074,996)</u> |

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS
IN THIS REPORT ARE AN INTERGRAL PART THEREOF.

VIVA Health, Inc.
STATEMENT OF CHANGES IN CAPITAL AND SURPLUS
For the Years Ended December 31, 2001 and 2000

| | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|--|--------------------|------------------|------------------|
| Capital and surplus prior reporting year | 6,006,515 | 2,317,554 | 2,074,550 |
| GAINS AND LOSSES TO CAPITAL & SURPLUS: | | | |
| Net income or (loss) | 3,313,184 | 3,688,961 | (2,074,996) |
| Net unrealized capital gains and losses | (8,251,813) | | |
| Change in net deferred income tax | 866,177 | | |
| Change in nonadmitted assets | | | |
| Change in surplus notes | | | |
| Capital changes: | | | |
| Paid in | | | |
| Surplus adjustments: | | | |
| Paid in | | | 2,318,000 |
| Aggregate write-ins for gains or (losses) in surplus | | | |
| Net change in capital and surplus | <u>(4,072,452)</u> | <u>3,688,961</u> | <u>243,004</u> |
| Capital and surplus end of reporting year (rounding) | <u>1,934,063</u> | <u>6,006,515</u> | <u>2,317,554</u> |

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS
IN THIS REPORT ARE AN INTERGRAL PART THEREOF.

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Bonds

\$9,272,191

The captioned amount for bonds is \$944,586 less than the \$10,216,777 reported in the Company's 2001 Annual Statement.

The examiner reviewed the NAIC VOS manual on CD-ROM to determine if the NAIC Security Valuation Office had valued the securities. The examiner determined that the securities were not listed in the manual. Therefore, the examiner requested that the Company provide a prospectus for each of the certificate type securities. In reviewing the prospectuses, the terms of the prospectuses indicated that "the certificates represent beneficial interests in the trust only. The certificates themselves are not obligations of or guaranteed by the United States or any government agency, nor are the certificates obligations of or guaranteed by the borrower of the trustee." It was noted that some of the security descriptions only listed one rating, while the other security descriptions listed no ratings. Based on the above facts, the Company must submit the certificate securities for valuation by the NAIC SVO in accordance with the Alabama Department of Insurance Regulation Number 98, Section II, which states:

"All securities owned by an insurer shall be valued in accordance with those standards promulgated by the NAIC Securities Valuation Office (SVO). Any securities owned by an insurer that has not been valued by the SVO shall be submitted to SVO for valuation in accordance with the procedures of the SVO."

As a result, the examination has non-admitted all certificate securities with a total carrying value of \$944,586 at December 31, 2001.

It was determined that the Company did not properly complete Schedule D - Part 1, Column 19 in accordance with the NAIC Annual Statement Instructions-Health. It was noted that the majority of the Company's bonds were comprised of U.S. entities. Therefore, these securities do not require ratings from any Nationally Recognized Statistical Rating Organizations (NRSRO) in accordance with the Purposes and Procedures Manual of the NAIC Securities Valuation Office, Part Four, Section 1 (a)(ii)(2)(a). As a result, these securities are provisionally exempt from filing with the SVO. Because of the filing exemption, the Company should have used the administrative symbol

PE with the indicated NAIC 1 Designations on Schedule D - Part 1, Column 19.

It was noted that the Company did not use one of the methodologies as defined in NAIC Accounting Practices and Procedures Manual, SSAP No. 43 paragraphs 9-14 to determine prepayment assumption for its loan-back securities. The Company indicated that it was not subject to the prepayment assumptions because the loan-backed securities, which it holds, have a coupon rate that is not subject to change over the life of the bond. However, by definition, loan back securities are defined as pass through certificates, collateralized mortgage obligations, and other securitized loans not included in structured securities. Therefore, loan back securities are subjected to prepayments. Prepayments are a significant variable element in the cash flow of loan-backed securities because they affect the yield and determine the expected maturity against which the yield is evaluated. The prepayment rates of the underlying loans shall be used to determine prepayment assumptions. Therefore, the Company should revalue its loan-back securities by using the new prepayment assumptions by using either the prospective or retrospective adjustment methodologies, and ensure that the changes in prepayment assumptions and resulting cash flows are reviewed periodically in accordance with the aforementioned above SSAP.

The examiners' review disclosed that the Company was amortizing its bonds using the straight-line method instead of the scientific interest method. In accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 26, paragraph 6, amortization of bond premium or discount shall be calculated using the scientific interest method taking into consideration interest and principal provisions over the life of the bond. The examiner recalculated all amortized values at December 31, 2001 by using the scientific interest method. It was determined that the Company overstated its amortized value by \$14,023.

The Company did not maintain detail records to reconcile its amortization of bond discounts and premiums to the general ledger. According to management, the Company's process is to record the purchase of bonds at par on the books, with an associated entry for premium or discount if applicable. Then, the Company calculates the appropriate monthly amortization of premium or discount based on the life of the bond. The total monthly amortization is recorded to the general ledger each month. The examiner attempted to reconcile the detailing records to the general ledger and it was determined that the Company used the wrong method to calculate the

amortization of bond premium or discount as mentioned in the above paragraph. Therefore, the examiner was unable to reconcile the accounts. In accordance with Alabama Department of Insurance Regulation Number 79 Section XVI, an HMO shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds of business transacted. Subsequent to the examination date, the Company purchased investment software that will allow the Company to manage the recording of monthly discounts and premium on bonds individually and uploads directly into the Annual and Quarterly Statement software.

The Company, in Schedule D- Part 1, did not report the initial letters of the months in which interest was payable in the Interest- How Paid column, which was required by the NAIC Annual Statement Instructions. Instead, it reported how often interest was to be paid.

In Schedule D- Part 3, the Company included the paid for accrued interest in its actual cost column, which conflicted with the NAIC Annual Statement Instructions. The NAIC Annual Statement Instructions requires that the actual cost column exclude accrued interest and dividends.

The Company recorded, in its 2001 Schedule D- Parts 3 through Part 5, its purchases and sales of bonds on their settlement dates instead of their trade dates, which conflicted with the NAIC Accounting Practices and Procedures Manual- SSAP No. 26, paragraph 4. SSAP No. 26, paragraph 4 requires that bond acquisitions or disposals shall be recorded on the trade date and not the settlement date.

The examiner recalculated the gain or loss on the sale of the Company's bonds during the examination period. There was one error noted where the Company recorded a book value amount lower than the par value when the security was purchased at par. This was a difference of \$27,500; however, the Company reported no gains or losses in its 2001 Underwriting and Investment Exhibit- Part 4A. There was no overstatement in the Company's 2001 Statement of Revenue and Expenses due to this omission. The Company had a total of \$7,985 in realized gains on the sale of bonds for 2001, which was deemed immaterial. The Company should however complete the Underwriting and Investment Exhibit- Part 4A in accordance with the NAIC Annual Statement Instructions when it has unrealized or realized gains or losses on its investments.

It was noted that the Company incorrectly input the par value for one of its bonds in its 2000 Schedule D- Part 3; however, the par value for this bond was input correctly in Schedule D- Part 1. Due to no effect on the statement value at 12/31/2000, the examiner deemed this input error immaterial; however, Schedule D- Part 3 needs to be completed in accordance with the NAIC Annual Statement Instructions.

The following Schedule D- Part 1 columns were not completed in accordance with the NAIC Annual Statement Instructions: Interest How Paid column, Rate Used to Obtain Fair Value column, and the Fair Value column. The Interest How Paid column according to the NAIC Annual Statement Instructions requires that the Company insert initial letters of months in which the interest is payable instead of how often the interest was paid. The Fair Value column included amounts that were not obtained from the sources listed in the NAIC Annual Statement Instructions. The Rate Used to Obtain the Fair Value column was left blank even though fair value amounts were listed in the Fair Value column.

The Company's 2001 Schedule D- Part 4 reflected gains and losses from the disposals of its bonds; however, the Company did not reflect these gains and losses in its 2001 Underwriting and Investment Exhibit Part 4A- Capital Gains and Losses therefore conflicting with the NAIC Annual Statement Instructions.

It was also noted that the Company classified its entire bond portfolio as U.S. Government Issuer Obligations. The correct classification for the bonds issued by the Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA) is Single Class Mortgage-Backed/Asset-Backed Bonds in accordance with the NAIC Annual Statement Instructions - Health and the NAIC Purposes and Procedures Manual of the NAIC Securities Valuation Office.

Note 2 - Cash and short-term investments

\$7,193,987

The captioned amount is \$7,307,227 less than the \$14,501,214 reported by the Company in its 2001 Annual Statement.

During the review of the Company's repurchase agreement with SouthTrust Bank, it was noted that the agreement was not appropriately collateralized in accordance with the NAIC Accounting Practices and Procedures Manual SSAP 45, paragraph 8 a., which requires the following:

"The reporting entity shall receive as collateral transferred securities having a fair value at least equal to 102 percent of the purchase price paid by the reporting entity for the securities. If at anytime the fair value of the collateral is less than 100 percent of the purchase price paid by the reporting entity, the counterparty shall be obligated to provide additional collateral, the fair value of which, together with fair value of all collateral then held in connection with the transaction, at least equals 102 percent of the purchase price."

The NAIC Annual Statement Instructions require in the Notes to Financial Statements section of the annual statement that the Company "disclose the policy for requiring collateral or other security as required in SSAP No. 45..." The Company did not comply with this disclosure.

The repurchase agreement should be accounted for as a collateralized lending and not as an actual purchase of the collateral that secures the transaction, in accordance with the NAIC Accounting Practices and Procedures Manual-SSAP 45 and Alabama Department of Insurance Regulation No. 97 Section 4, which adopted the NAIC Accounting Practices and Procedures Manual; therefore, this repurchase account with SouthTrust Bank would be subject to the investment limitations set forth under ALA. CODE § 27-41-6 (1975), which is as follows:

"(a) An insurer shall not have at any one time any single investment or combination of investments in...or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer's assets or the total of its capital and surplus, as shown in the latest annual report of the insurer..., less the minimum and capital and surplus required of said insurer..."

The calculations according to the aforementioned statute are as follows:

Total admitted assets at December 31, 2000 = \$18,976,491 x 10% = \$1,897,649.

Total capital and surplus at December 31, 2000 = \$6,006,515- \$200,000
(minimum capital and surplus) = \$5,806,515.

The Company's investments in SouthTrust Bank exceeded the investment limitation by \$7,307,227, which was calculated as follows:

| | |
|------------------------------|------------------|
| SouthTrust Repo | \$13,571,000 |
| SouthTrust Open Depositories | <u>(457,258)</u> |
| Total | \$13,113,742 |

Investment limitation \$ 5,806,515

Over limitation \$ 7,307,227

The total not admitted for exceeding the investment limitation was \$7,307,227.

The Company reported the amount paid for the security at December 31, 2001 in Schedule E- Part 1 as cash instead of in Schedule DA- Part 1 as a short-term investment, which was not in compliance with the NAIC Accounting Practices and Procedures Manual- SSAP 45, paragraph 4. This misclassification however did not affect the Company's surplus.

The Company reported its certificates of deposit held by the State in Schedule E- Part 1 therefore not complying with the NAIC Annual Statement Instructions. Schedule E- Part 2 reflected that the Company had bonds on deposit with the State instead of certificates of deposit, that both of its certificates of deposit were from SouthTrust Bank instead of one with SouthTrust Bank and the other with First Commercial Bank, and the description of these deposits did not include the rate or due date of these certificates of deposit, therefore, not complying with the NAIC Annual Statement Instructions.

ALA. CODE § 35-12-23 and 35-12-31a (1975) provides that all of the Company's outstanding and unclaimed property over five years old should be reported to the State's Treasurer in an escheat filing. The Company had several outstanding checks over five years old at December 31, 2001, which should have been reported to the State Treasurer. The inclusion of these checks did not cause the Company to overstate its surplus.

The Company did not complete the Maturity Date column or the NAIC Designation column in its 2001 Schedule DA- Part 1, which conflicted with the NAIC Annual Statement Instructions.

Note 3 - Accident and health premiums due and unpaid **\$50,232**

The captioned amount is the same as reported by the Company in its 2001 Annual Statement.

The examiners determined during a review of the Company's accident and health premiums due and unpaid that the Company did not nonadmit balances more than ninety days past due totaling \$2,552, which was not in accordance with the NAIC Accounting Practices and Procedures- SSAP No. 6, paragraph 9 which requires any uncollected premium balances which are over ninety days due shall be nonadmitted.

No change was made to the Company's surplus at December 31, 2001 due to the immaterial amount.

Note 4 - Health Care Receivables **\$140,243**

The captioned amount is \$169,949 less than the \$310,192 reported in the Company's 2001 Annual Statement.

There were certain contracts with hospitals and clinics that did not contain language that allowed for the chargeback of claims against capitation payments. According to the NAIC Accounting Practices and Procedures Manual SSAP No. 84, "A claim overpayment shall not be recorded as a receivable until invoiced. To the extent that the claim overpayment meets the setoff conditions in the SSAP No. 64 - *Offsetting and Netting of Assets and Liabilities* (SSAP No. 64)..." NAIC Accounting Practices and Procedures Manual SSAP No. 64 states that "A valid right of setoff exists only when all the following conditions are met: ... (d) The right of setoff is enforceable at law." Due to the Company not having language in the capitation contracts that allows it to chargeback claims against capitation payments, the right of setoff is not enforceable at law. Therefore, the Company should have non-admitted the \$169,949 for contracts that did not contain required language for offsetting claim overpayments against capitation payments.

Note 5- Investment income due and accrued**\$168,193**

The captioned amount is the same as reported by the Company in its 2001 Annual Statement.

The interest due and accrued amounts per the Company's Schedule D- Part 1, Schedule DA- Part 1, and Schedule E- Part 1 did not reconcile with the Underwriting and Investment Exhibit Part 4. The total variance was \$6,831, which was deemed immaterial. The Company's Underwriting and Investment Exhibit Part 4 reconciled with its Statement of Revenue and Expenses, its balance sheet, and its year-end general ledger; however, the Company should correctly report its interest due and accrued amounts in Schedule D- Part 1, Schedule DA- Part 1, and Schedule E- Part 1 and reconcile these totals with the Underwriting and Investment Exhibit Part 4.

Note 6 - Amounts due from parents, subsidiaries and affiliates **1,329,200**
Amounts due to parents, subsidiaries and affiliates **335,731**

The captioned amounts are the same as reported by the Company in its 2001 Annual Statement.

The 2001 Annual Statement Exhibit 6 - Amounts due from parent, subsidiaries and affiliates reflected that the amount receivable was due from UAB Health Systems, an affiliate. The affiliate was not included on Schedule Y - Part 1 of the 2001 Annual Statement as required by the NAIC Annual Statement Instructions. The NAIC Annual Statement Instructions state that the Company is to "attach a chart or listing presenting the identities of and interrelationships between the parent, all affiliated insurers and reporting entities and other affiliates, identifying all insurers and reporting entities as such and listing the Federal Employer's Identification Number for each." The NAIC Annual Statement Instructions also state that "no non-insurer (excluding the parent company) need be shown if it does not have any activities reported in Schedule Y, Part 2 and its total assets are less than one-half of one percent of the total assets of the largest affiliated insurer or reporting entity." The total assets are not less than one-half of one percent of the total assets of the largest affiliated insurer or reporting entity. Therefore, the Company did not correctly complete Schedule Y - Part 1 of the Annual Statement.

On the Underwriting and Investment Exhibit - Part 3, the Company reported a management fee as a write-in expense instead of listing the expenses individually. The NAIC Annual Statement Instructions requires that "a

reporting entity that pays any affiliated entity (including a managing general agent) for the management, administration or service of all or part of its business or operations shall allocate these costs to the appropriate expense classifications item (salaries, rent, postage, etc.) as if these costs had been borne directly by the company. Do not report management, administration, or similar fees as one-line expenses. The reporting entity may estimate these expense allocations based on a formula or other reasonable basis." Therefore, the Underwriting and Investment Exhibit - Part 3 was not completed appropriately.

Note 7 - Federal and foreign income tax recoverable and interest thereon(including \$ net deferred asset) **\$866,177**

The captioned amount is \$866,117 more than the \$0 reported in the Company's 2001 Annual Statement.

In 2001 and 2000, respectively, the Company posted earnings of approximately \$1.9 million and \$3.7 million during the calendar years. During the prior years, the valuation allowance of the deferred tax assets was recorded at 100% due to the fact that the Company was not able to utilize the deferred tax asset against future net earnings. Based on the recommendation of PriceWaterhouseCoopers, LLC, it was deemed appropriate to remove the valuation allowance since the Company had been profitable for the past two years and the Company expected to continue to generate net income into the foreseeable future. As a result of the CPA's analysis, it was recommended that the Company admit the deferred tax asset.

It was determined that the CPA's calculation of the deferred tax asset was within the guidelines of the NAIC Accounting Practice and Procedure Manual, SSAP No. 10. However, it was noted that the deferred tax asset was not booked by the Company until the first quarter of 2002. As a result, this resulted in an understatement of the Company's assets and unassigned funds for the reporting period of 2001.

Note 8- Claims unpaid **\$4,892,000**

The captioned amount for Claims unpaid is \$1,925,000 less than the \$6,817,000 reported in the Company's 2001 Annual Statement.

The actuarial examiner reviewed the actuary's estimated reserves in total to the carried amounts by the Company as of December 31, 2001. It was determined

that the carried reserves were \$2.4 million above the actuary's point estimate and \$2.2 million above the high end of the actuary's selected range. The vast majority of the difference was due to the Company carrying a reserve in the amount of \$1,925,000 for the potential assessment by the Guaranty Fund for Southern Health Systems and The Oath of Alabama. The rest of the difference was due to the fact that the Company had booked reserves in the amount of \$448,527 in excess of the Company's actuary's selected IBNR. Therefore, the actuarial examiner concluded that the carried reserves were not within a reasonable range around the actuary's estimates. The last examination report recommended that the actuary should include in his actuarial workpapers exhibits that compare his indicated reserves to the carried reserves of the Company. The Company did not comply with the recommendation.

The reasons for the Company carrying reserves above the high end of the range were to reserve for the potential assessment by the Guaranty Fund for Southern Systems and The Oath of Alabama, and to ensure that IBNR were booked conservatively. The Oath of Alabama did not enter into receivership.

The NAIC Accounting Practices and Procedures Manual, SSAP No. 55, paragraph 11, establishes guidelines that require the current reserves to be within the range set forward by the actuary, and that any deviation from the midpoint should be supported as management's best estimate of the liability.

To be in compliance with the NAIC 2001 Annual Statement Instructions - Health, such amount of guaranty fund notes, contribution certificates, statutory deposits of alien insurers, or similar funds other than capital stock, with appropriate description shall be reported in the Aggregate write-ins for other liabilities, Line 17. As a result, this examination has reclassified the \$1,925,000 million reserve for future Guaranty Fund assessments to the appropriate line item.

The actuarial examiner reviewed the methodologies used by the opening actuary to support his statement of opinion. The actuarial examiner compared the current review with the prior review, and found only one material change in methodology. The change reflected inclusion of PMPM trend in the calculation of projected incurred losses. The actuarial examiner recommended that the actuary include trend in the methodology when utilizing the rolling 12-month average PMPMs. The prior approach was to weight the indicated PMPM with a 12-month rolling average that was, on average, 6 months old. The goal of the recommendation was to increase the rolling twelve PMPMs to reflect about 6 months of trend.

The opining actuary included trend in his current analysis; however, it is the actuarial examiner's opinion that the approach is not reasonable. The actuary's approach included a greater trend factor for the more recent incurral months, progressively decreasing until no trend is used for incurral months December 2000 and prior. This distortion produces an excessive Commercial IBNR of approximately \$400,000. In addition, the Medicare IBNR was calculated in the same manner, but the bias was not as large.

The Company submitted rate studies to the Alabama Department of Insurance. The rate studies described how the rates were derived. A review of the rate studies by the actuarial examiner determined that no backup support for the utilization and average cost assumptions by type of service was provided, and there was no support for claim trend and expense assumptions.

A recommendation was made in the previous examination report that the actuarial workpapers be better documented for another actuary to follow. The descriptions of methods and assumptions, along with appropriate support, should be incorporated into the workpapers. In addition, the analysis should include adequate reasonability checks. The Company did not comply with recommendation.

It was determined that data corrections were made during the actuarial examiner's review. The previous examination recommended that the Company be more diligent in providing correct data the actuary. The reason is that corrections and revisions to the data complicate the reserve process and brings into question the credibility of the data for reserve projections. The Company did not comply.

The Company should require that its actuary separately review the non-capitated data in several groupings, such as, splitting them into more homogenous groupings to provide results from different perspectives upon which to test and judge the reserve level selection. Segregation of the data would allow better understanding of changes in the mix of business, trends in the payment of claims, etc. The Company's actuary should review the data by hospital inpatient, hospital outpatient, and physicians separately for the non-capitated business.

It was noted that the Company did not complete the prior year line in the Underwriting and Investment Exhibit Part 2C. Company management indicated that this was not completed because the amounts paid in any one year

for claims incurred more than one year back were deemed immaterial. Regardless of whether these amounts were deemed immaterial by the Company, these amounts should have been reported in accordance with the NAIC Annual Statement Instructions.

It was also noted that the Company did not complete pages 12.1 - 12.4 and 12.6 -12.7 (Underwriting and Investment Exhibit Part 2C Sections A and B). These schedules should be completed in accordance with the NAIC Annual Statement Instructions.

The Company classified all of its expenses as General Administrative Expenses in its Underwriting and Investment Exhibit Part 3. It did not classify its expenses incurred in the adjusting, recording and paying of claims as Claim Adjustment Expenses nor did it classify its expenses incurred in the investing of funds and pursuit of investment income as Investment Expenses. This conflicted with the NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual- SSAP 70.

The Company's detail of claims paid for 1999, 2000 and 2001 were not readily available for review and did not reconcile with the corresponding years annual statements- Underwriting and Investment Exhibit Part 2. The variances were \$12,498, \$1,561,795, and \$507,576, respectively. Through discussions with the actuarial examiner, it was determined that these variances would not cause a material distortion in the actuarial numbers selected at December 31, 2001.

The Company did not complete column three of its 2001 Underwriting and Investment Exhibit Part 2B relating to the December 31, 2001 Claim Reserve and Claim Liability December 31 of Current Year on Claims Unpaid December 31 of Prior Year. It was determined that the Company had a total of \$64,329 claims with incurral dates in 2000 and prior that were unpaid at December 31, 2001. The Company incorrectly included this total in column four, which contained unpaid claims with incurral dates in 2001. No changes were made to the Company's financial statements at December 31, 2001 because this error did not affect the Company's surplus.

Note 9 - Premiums Received in Advance

\$8,271,287

The captioned amount is the same as reported in the Company's 2001 Annual Statement. After reviewing the premiums received in advance, it was determined that the Company over accrued for the unearned student plan premiums by \$6,124.

The Company was unable to provide the detail supporting a wire transfer from an affiliated company for a Commercial Unearned Premium of \$850,000. The Company provided the examiners with the wire request and evidence of the actual bank deposit. Management represented that the \$850,000 unearned premium amount found at the end of each month is a prepayment received from the UAB employer group. This payment is issued as a prepayment each month with the understanding that the remainder of premiums will be paid within the month in which the premiums are due. The group did not begin sending detail of their payments until August 2002 so there is no detail other than the actual wire request from UAB for 2001. The Company subsequently provided the examiners with the total pages from the detail listings that tied to the UAB Invoice Worksheet.

Note 10 - Aggregate write-ins for other liabilities **\$361,400**

The captioned amount is \$300,000 more than the \$61,400 reported in the Company's 2001 Annual Statement.

The actuarial examiner performed an analysis of the Company's reserves to determine that the amounts carried by the Company were appropriate. Based on the actuarial examiner's review, it was determined that the Company was carrying a reserve in the amount of \$1,925,000 for the potential assessment by the Guaranty Fund for the Southern Health Systems and The Oath of Alabama. This type of accrual is more appropriately classified as Aggregate write-ins for other liabilities; therefore, this examination has reclassified the amount of \$1,925,000 to this line item from the Claims Unpaid line item.

The accrual of \$1,925,000 was based on the anticipated insolvency of The Oath of Alabama. The Oath of Alabama was sold and the insolvency did not occur. Therefore, the examiners have reduced this accrual by \$1,625,000, for a net change to this line item of \$300,000.

Note 11 - Unassigned funds (surplus) **\$(11,402,933)**

The unassigned funds (surplus) balance of the Company, as determined by this examination, was \$ 5,930,585 less than the \$(5,472,348) reported by the Company in its 2001 Annual Statement. The following presents a reconciliation of unassigned funds per the Company's filed Annual Statement to that developed by this examination:

Unassigned funds balance per Company \$ (5,472,348)

Examination increase / (decrease) to assets:

| | | |
|--|----------------|----------------|
| Bonds (Note 1) | \$ (944,586) | |
| Cash and short-term investments (Note 2) | (7,307,227) | |
| Health Care Receivables (Note 3) | (169,949) | |
| Federal and foreign income tax recoverable | | |
| Interest thereon (Note 7) | <u>866,177</u> | |
| Total decrease to assets | | \$ (7,555,585) |

Examination (increase) / decrease to liabilities:

| | | |
|--|---------------------|-------------------------------|
| Claims unpaid (Note 8) | \$1,925,000 | |
| Aggregate write-in for other liabilities (Note 10) | <u>\$ (300,000)</u> | |
| Total decrease to liabilities: | | <u>\$ 1,625,000</u> |
| Net Increase (Decrease) | | <u>\$ (5,930,585)</u> |
| Unassigned fund balance per Examination | | <u><u>\$ (11,402,933)</u></u> |

SUBSEQUENT EVENTS

The examiner reviewed general ledger and cash transactions occurring subsequent to the balance sheet date. In addition, the examiner inquired of management regarding any significant subsequent events.

Significant events, which have transpired subsequent to December 31, 2001 and which were not discussed elsewhere in the report, are as follows:

The Baptist hospitals were added to the Company's commercial network effective June 1, 2002. Baptist Princeton and Baptist Montclair became Medicare providers with the Company effective September 1, 2002.

The Company changed reinsurance providers effective January 1, 2002 to Allianz Life Insurance Company of North America. The only significant coverage changes were an increase of \$50,000 in the Company's reinsurance deductible for its commercial business and an increase of \$25,000 for its Medicare business.

CONTINGENT LIABILITIES AND PENDING LITIGATION

Examination of these items included the following: a review of the Company's statutory financial statements disclosures; performance of a search for unrecorded items; obtaining letters of representation from management; and, a review of the external auditors summary of pending litigation.

The Company was named in one lawsuit, which was pending at December 31, 2001. The examiner determined that the lawsuit was settled. The liability carrier paid the entire settlement amount. As of the examination report date, the settlement agreement was in the process of being signed by all parties. The Company's attorney indicated that Viva should not have any additional expenses related to the lawsuit. However, if any further expenses should occur, the liability carrier will pay any additional expenses.

No material unreported contingencies were identified.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regards to the Company's compliance with the recommendations made in the previous examination reports. This review indicated that the Company had satisfactorily complied with the prior recommendations, with the exception of the following:

1. During the prior examination, it was recommended that the Company's Board of Directors annually elect all officers of the corporation and perform such other duties related to the officers as required by the Article IV of the Company's Bylaws. The Company did not comply. See "Officers" on page 9.
2. It was recommended that an aging of premiums receivable be performed in support of the admissible portion of said asset, and that any amounts more than ninety days past due be reported as not admitted. During this examination, it was determined that the Company did not non-admit balances over ninety days past due. See "Note 3- Accident and health premiums due and unpaid" on page 32.
3. During the prior examination, it was recommended that the Company's actuarial workpapers be better documented for another actuary to follow. The documentation should include descriptions of methods and assumptions. Appropriate support to be incorporated into the workpapers,

along with the analysis, includes adequate reasonability checks. The Company did not comply with this recommendation.

4. It was recommended, in the last examination, that the Company's actuary include in his actuarial workpapers exhibits that compare his indicated reserves to the carried reserves of the Company. The Company did not comply with this recommendation.
5. It was recommended that the Company be more diligent in providing correct data to its actuary. The Company did not comply with this recommendation.

COMMENTS AND RECOMMENDATIONS

Corporate Records – Page 4

It is recommended that the Board of Directors amend its Bylaws to reflect the change of address of its principal office.

Shareholder – Page 5

It is recommended that the Company take appropriate actions to ensure compliance with its Bylaws with regard to an annual meeting of the shareholder.

Board of Directors - Page 5

It is recommended that the Company take appropriate actions to ensure compliance with its Bylaws with regard to the annual election of Directors.

It is further recommended that the Board of Directors designate the time and place of the annual shareholder's meeting in order to comply with the Company's Bylaws.

Officers - Page 9

It is again recommended that the Company take appropriate actions to ensure compliance with its Bylaws with regard to the annual election of Officers. This recommendation was also made in the prior examination.

It is recommended that the Company take appropriate actions as necessary to ensure compliance with its Bylaws with regard to the principal financial officer of the Company functioning as the Treasurer.

Conflict of Interest - Page 10

It is recommended that the Company maintain copies of signed annual Conflict of Interest statements for all of its Directors, Officers, and employees in accordance with its conflict of interest policy.

Fidelity Bond and Other Insurance - Page 13

It is recommended that the Company's fidelity bond coverage include the required cancellation provision in accordance with ALA. CODE § 27-21A-6b (1975).

Reinsurance – Page 14

It is recommended that the Company complete Schedule S in accordance with the NAIC 2001 Annual Statement Instructions-Health as required by the Alabama Department of Insurance Regulation Number 97.

Complaint Handling – Page 16

It is recommended that the Company provide its enrollees, at any point during the complaint appeal process, with the telephone number for the consumer division at the Alabama Department of Insurance in accordance with the NAIC Market Conduct Examiners Handbook – Complaint Handling, Standard 2.

Accounts and Records- Page 19

It is recommended that the Company maintain complete and accurate records in its home office in accordance with Alabama Department of Insurance Regulation Number 79, Section XV.

It is recommended that the Company require CSC to provide evidence that CSC maintains fidelity bond coverage to cover losses due to actions by their personnel.

It is recommended that the Company require CSC to carry insurance coverage to restore loss of Company records due to any mishaps.

Bonds – Page 26

It is recommended that the Company submit the certificate securities for valuation by the NAIC SVO in accordance with the ALA. AMIN. CODE 98, Section II (1994).

It is recommended that the Company complete Schedule D - Part 1, Column 19 in accordance with the NAIC Annual Statement Instructions-Health.

It is recommended that the Company classify its bonds in accordance with the instructions contained in the NAIC Annual Statement Instructions - Health and the NAIC Purposes and Procedures Manual of the NAIC Securities Valuation Office, particularly the Company's mortgage-backed securities issued by governmental entities.

It is recommended that the Company revalue its loan-back securities by using either the prospective or retrospective adjustment methodologies in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 43, paragraphs 9-14.

It is recommended that the Company amortize its bonds using the scientific interest method in accordance with the NAIC Accounting Practices and Procedure Manual, SSAP No. 26, paragraph 6.

It is recommended that the Company keep accurate records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of business transacted in accordance with Alabama Department of Insurance Regulation Number 79 Section XVI.

It is recommended that the Company amortize bonds to the call date or maturity value date, whichever produces the lowest asset value in accordance with the NAIC Accounting Practices and Procedure Manual, SSAP No. 26, paragraph 6.

It is recommended that the Company disclose the basis at which the bonds are stated and the amortization method in accordance with the NAIC Accounting Practices and Procedure Manual, SSAP No. 26, paragraph 16.

It is recommended that the Company report the initial letters of the months in which interest is payable in the Interest- How Paid column in Schedule D- Part 1 of its future financial filings in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company not include the paid for accrued interest in its actual cost column in Schedule D- Part 3 of its future financial filings in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company record its bond transactions on their trade dates instead of their settlement dates in accordance with the NAIC Accounting Practices and Procedures Manual- SSAP No. 26, paragraph 4.

It is recommended that the Company report all realized and unrealized gains and losses on its investments in its Underwriting and Investment Exhibit- Part 4A in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company, in future financial filings, complete all columns in Schedule D- Part 1 in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company obtain the fair market value amounts on its bonds from a source identified in the NAIC Annual Statement Instructions.

It is recommended that the Company, in future financial filings, reflect all gains and losses from disposed of securities in the appropriate exhibit(s) in accordance with the NAIC Annual Statement Instructions.

Cash and short-term investments – Page 29

It is recommended that the Company's repurchase agreements comply with the NAIC Accounting Practices and Procedures Manual- SSAP 45, Paragraph 8 regarding proper collateral.

It is recommended that the Company comply with the NAIC Annual Statement Instructions regarding the required disclosure in its Notes to Financial Statements for its repurchase agreement.

It is recommended that the Company comply with ALA. CODE § 27-41-6 (1975) as amended, which states: "(a) An insurer shall not have at any one time any single investment or combination of investments in or securities of any one person aggregating in cost to the insurer in excess of the greater of 10 percent of such insurer's assets or the total of its capital and surplus, as shown in the latest annual report of the insurer... less the minimum and capital and surplus required of said insurer..."

It is recommended that the Company classify, in future financial statements, the amount paid for the securities via its repurchase agreement as short-term investments in accordance with the NAIC Accounting Practices and Procedures Manual- SSAP 45.

It is recommended that the Company report its certificates of deposit in Schedule E- Part 1 and Schedule E- Part 2 in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company file all outstanding and unclaimed property over five years old with the State Treasurer in an escheat filing in accordance with ALA. CODE § 35-12-23 and 35-12-31a (1975).

It is recommended that the Company complete in future financial filings all columns of Schedule DA- Part 1 in accordance with the NAIC Annual Statement Instructions.

Accident and health premiums due and unpaid – Page 32

It is recommended that an aging of premiums receivable be performed in support of the admissible portion of said asset, and that any amounts more than 90 days past due be reported as not admitted. These two recommendations were also made in the last full scope examination report.

Health Care Receivables - Page 32

It is recommended that the Company non admit, in its future financial filings, all capitation chargebacks that do not meet all of the requirements of the NAIC Accounting Practices and Procedures Manual SSAP No. 84 Section 14.

**Amounts due from parents, subsidiaries and affiliates and
Amounts due to parents, subsidiaries and affiliates - Page 33**

It is recommended that the Company include all required affiliates on Schedule Y - Part 1 of the Annual Statement as defined by the NAIC Annual Statement Instructions.

It is recommended that the Company report management fees by listing them as individual expenses and not reporting the fees as one-line expenses on the Underwriting and Investment Exhibit - Part 3 as required by the NAIC Annual Statement Instructions.

**Federal and foreign income tax recoverable and interest thereon
(including \$ net deferred asset) – Page 34**

It is recommended that the Company report its deferred tax assets in future Annual Statements in the related reporting period in accordance the NAIC Accounting Practice and Procedure Manual, SSAP No. 10.

Claims unpaid - Page 34

It is recommended that the Company require its opining actuary to revise his trend procedure used with the twelve month rolling average PMPM costs to accurately match the underlying trend period with the age of the twelve-month rolling average PMPMs.

It is recommended that the Company require its actuary to support the filed rates based on the Company's and/or industry claim experience, claim trends, and expenses. Backup data for each of these key assumptions, based on industry and/or the Company's experience, should be available for review when requested by the Alabama Insurance Department.

It is again recommended that the Company require that the actuarial workpapers be better documented and be sufficient for another actuary to follow. Descriptions of methods, assumptions, and reasonability checks, along with appropriate support, should be incorporated into the workpapers. Reasonability checks should include, but not be limited to, the results of individual product estimates of ultimate claims payable.

It is again recommended that the Company should be more diligent in providing correct data to the actuary.

It is again recommended that the actuary should include in his actuarial workpapers exhibits that compare his indicated reserves to the carried reserves of the Company. It is further recommended that any deviation from the midpoint should be supported as management's best estimate of the liability in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 55, paragraph 11.

It is recommended that the Company classify, in its Underwriting and Investment Exhibit Part 3, expenses incurred in the adjusting, recording and paying of claims as Claim Adjustment Expenses and its expenses incurred in the investing of funds and pursuit of investment income as Investment Expenses in accordance with the NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual- SSAP 70.

It is recommended that the Company have all paid claims detail readily available for review and that these paid amounts, per the detail, reconcile with the reported numbers in its Annual Statements.

It is recommended that the Company, in future financial filings, correctly complete its Underwriting and Investment Exhibit Part 2B in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company complete, in future financial statements, its Underwriting and Investment Exhibit Part 2C and Underwriting and Investment Exhibit Part 2C Sections A and B in accordance with the NAIC Annual Statement Instructions.

Premiums Received in Advance - Page 37

It is recommended that the Company maintain all documentation for premiums received in advance in accordance with ALA. CODE § 27-27-29(a) (1975), as amended.

Aggregate write-ins for other liabilities – Page 38

It is recommended that the Company correctly classify its guaranty fund assessment reserve in its future financial filings in accordance with the NAIC Annual Statement Instruction-Health.

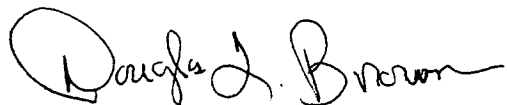
CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing the Company during the course of the examination.

The customary examination procedures, as recommended by the National Association of Insurance Commissioners for health maintenance organizations, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Rhonda B. Ball, Angela Free and Joy R. Griggs, Examiners for the Alabama Department of Insurance, and David M. Shepherd, FCAS, MAAA, Rosemary G. Wickham, ACAS, MAAA, Paul M. Merlino, ACAS, MAAA, CFA, and Robert P. Daniel, employees of the firm Merlino & Associates, Inc., representing the Alabama Department of Insurance, participated in this examination.

Respectfully submitted,

A handwritten signature in black ink, reading "Douglas T. Brown". The signature is written in a cursive style with a large initial "D" and a long horizontal flourish at the end.

Douglas T. Brown
Examiner-in-Charge
Alabama Department of Insurance



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
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STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

September 19, 2002

Mr. Brad Rollow
President
Viva Health, Inc.
1400 21st Place South
Birmingham, AL 35205

Re: Financial/Market Conduct Examination As Of December 31, 2001

Dear Mr. Rollow:

This letter is to inform you of a financial/market conduct examination of your company called by the Alabama Department of Insurance and to authorize Rhonda Ball, Examiner, to conduct the examination. This authorization is pursuant to the instructions of Alabama Insurance Commissioner, D. David Parsons, and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners. The NAIC has required as an accreditation standard that examination reports be issued within eighteen (18) months of the "as of" date of the examination. This is requiring us to begin the examinations earlier to meet this requirement.

Your examination is to commence on or about October 15, 2002, and will be conducted primarily in your offices. The expected duration of the examination is approximately four months. Preliminary planning of your examination will first begin in the offices of the Alabama Department of Insurance. The examiner will arrive in your offices on or after this date. You will be contacted by Ms. Ball regarding the exact arrival date at your offices.

The Alabama Insurance Department has adopted work policies and rules governing work hours, leave and unacceptable conduct including sexual harassment. If you have any question about our examiner's conduct at your offices, please contact me immediately.

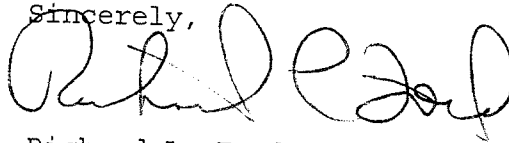
EQUAL OPPORTUNITY EMPLOYER

Mr. Brad Rollow
Page 2
September 19, 2002

As part of your examination, the enclosed internal control and information systems questionnaire is required to be completed for review by our examiner. Please complete and return the questionnaire to this Department within 30 days, addressed to the attention of the Examiners' Division. The questions may be answered on the questionnaire itself or on a separate sheet if additional explanation is required. If possible, your CPA's workpapers and a representative of your CPA firm should be available the week of October 15, 2002, for review at your offices.

Invoices covering examination fees and related expenses will be submitted to the appropriate company official in accordance with standard Departmental policy. Payment of any examination charges so invoiced are due within two business days following presentation of the invoice.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard L. Ford", written over a horizontal line.

Richard L. Ford, CFE, CIE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

Enclosures

cc: Jack M. Brown, CFE, CIE
Rhonda Ball, Examiner-in-Charge
Glenda Daniel, Analyst

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1. Article Addressed to:

Mr. Brad Rollow
President
Viva Health, Inc.
1400 21st Place South
Birmingham, AL 35205

2. Article Number (Copy from service label)

7099 3466 0015 2327 5388

PS Form 3811, July 1999

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x Dana Cooley

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102595-00-M-0952



DON SIEGELMAN
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

September 19, 2002

Mr. Paul Merlino
Merlino & Associates, Inc.
3060 Holcomb Bridge Road, NW
Suite J
Norcross, GA 30071

Re: **Market Conduct/Financial Examination of Viva Health, Inc.**

Dear Mr. Merlino:

This letter is to request and authorize your participation in the examination of the above referenced company for the purpose of computing reserves and making other valuations in your usual manner.

The examination is scheduled to begin on or about October 15, 2002. The examination for this company is being conducted in the company's offices at 1400 21st Place South, Birmingham, AL 35205, and will cover the period of time ending December 31, 2001. The expected duration of the examination is approximately four months. The company's telephone number is (205) 939-1718.

The Examiner-in-Charge will be Ms. Rhonda Ball. Please contact her at the company after the beginning date to coordinate the scheduling of your portion of this examination.

If your schedule does not permit you to accept this assignment, please let me know so that other arrangements can be made.

Thank you for your assistance in this matter.

Sincerely,

Richard L. Ford, CFE, CIE
Acting Deputy Commissioner and
Chief Examiner

RLF:dk

cc: Jack M. Brown, CFE, CIE
Rhonda Ball, Examiner-in-Charge
Glenda Daniel, Analyst

SENDER: COMPLETE THIS SECTION

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- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. Paul Merlino
Merlino & Associates, Inc.
3060 Holcomb Bridge Road NW
Suite J
Norcross, GA 30071

2. Article Number (Copy from service label)

7099 3400 0015 2327 5357

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C. Signature

x *Paul Merlino*☐ Agent☐ AddresseeD. Is delivery address different from item 1? ☐ YesIf YES, enter delivery address below: ☐ No

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4. Restricted Delivery? (Extra Fee)

☐ Yes



BOB RILEY
GOVERNOR

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GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

May 8, 2003

CERTIFIED MAIL
RETURN RECEIPT REQUESTED


Mr. Brad Rollow
President
Viva Health, Inc.
1400 21st Place South
Birmingham, AL 35205

RE: Viva Health, Inc.
Report of Examination as of December 31, 2001

Dear Mr. Rollow:

Enclosed is a copy of the Report of Examination of the above-cited company as of December 31, 2001. In the event that you have any objections to this report, please advise this Department in writing within twenty (20) days, and a hearing will be scheduled, at which time you may present your arguments regarding any objections.

Unless we hear from you within the above-stated time, the report will be filed as a public document. Once filed, no annual or quarterly statements, or other material reflecting the statutory financial condition of the company may be filed with or accepted by this Department if those statements conflict with any basis of calculation to establish the value of any asset, liability, or capital account in the report.

Sincerely,

Richard L. Ford, CFE, CIE
Chief Examiner

RLF:dk
Enclosure

cc: Jack M. Brown, CFE, CIE
Douglas Brown
Glenda Daniel

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. Brad Rollow
President
Viva Health Inc
1400 21st Place South
Birmingham, AL 35205

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly) Heather Brum B. Date of Delivery 5-21-03

C. Signature X Heather Brum ☒ Agent ☐ Addressee

D. Is delivery address different from item 1? ☐ Yes
If YES, enter delivery address below: ☐ No

3. Service Type

☒ Certified Mail ☐ Express Mail
☐ Registered ☒ Return Receipt for Merchandise
☐ Insured Mail ☐ C.O.D.

4. Restricted Delivery? (Extra Fee) ☐ Yes

2 **7002 2030 0000 9484 0089**

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952



BOB RILEY
GOVERNOR

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

WALTER A. BELL
COMMISSIONER
DEPUTY COMMISSIONER
D. DAVID PARSONS
JAMES R. (JOHNNY) JOHNSON
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
JOHN S. ROBISON
GENERAL COUNSEL
MICHAEL A. BOWNES
RECEIVER
DENISE B. AZAR
PRODUCER LICENSING MANAGER
JIMMY W. GUNN

**BEFORE THE INSURANCE COMMISSIONER
OF THE
STATE OF ALABAMA**

IN THE MATTER OF:

FINANCIAL CONDITION EXAMINATION OF

VIVA HEALTH, INC.

AS OF DECEMBER 31, 2001

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ORDER

ON THE 11th day of June, 2003, the above entitled cause came on for consideration by the Insurance Commissioner, pursuant to Regulation 103. The Insurance Commissioner, having fully considered and reviewed the Examination Report together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers, finds and states as follows, to-wit:

JURISDICTION

1. That the Insurance Commissioner has jurisdiction of this cause, pursuant to the provisions of the Alabama Insurance Code.
2. That Viva Health, Inc. is a domestic insurer licensed as a health maintenance organization in the State of Alabama.

ORDER
FINANCIAL CONDITION EXAMINATION
PAGE 2

FINDINGS OF FACT

1. That on May 7, 2003, the verified Financial Condition Examination Report of Viva Health, Inc. was filed with the Insurance Department.

2. That following receipt of the December 31, 2001 Examination Report, the Company was afforded a reasonable opportunity of not more than twenty (20) days to make a written submission or written rebuttal with respect to any matters contained in the Examination Report.

3. That Regulation 103 provides that within twenty (20) days of the end of the period allowed for the receipt of written submissions or written rebuttals, the Insurance Commissioner shall fully consider and review the report, together with any written submissions or written rebuttals and any relevant portions of the examiners' workpapers and enter an order. The order shall either: (i) adopt the examination report as filed or with modifications or corrections, including an order that the company take actions to cure any violations; (ii) reject the examination report with directions to the examiners to reopen the examination for purposes of obtaining additional data, documentation or information; or (iii) call for an investigatory hearing for purposes of obtaining additional documentation, data, information and testimony.

4. Regulation 103 requires the company to file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders within thirty (30) days of the issuance of the adopted report.

CONCLUSIONS OF LAW

1. That the December 31, 2001 Financial Condition Examination Report of Viva Health, Inc. shall be and hereby is Adopted by the Insurance Commissioner, pursuant to Regulation 103.

ORDER
FINANCIAL CONDITION EXAMINATION
PAGE 3


ORDER

IT IS THEREFORE ORDERED by the Commissioner of Insurance as follows:

1. That the December 31, 2001 Financial Condition Examination Report of Viva Health, Inc. is hereby Adopted.
2. That Viva Health, Inc. file an affidavit with the Alabama Department of Insurance stating that a copy of the adopted report and related orders were reviewed by the board of directors within thirty (30) days of the issuance of the adopted report.
3. That Viva Health, Inc. file an affidavit with the Department of Insurance within thirty (30) days of the issuance of the adopted report that the company filed a copy of the adopted report and related orders with all licensing states and the NAIC. An affidavit form is attached.
4. That Viva Health, Inc. shall comply with the recommendations set forth in the Report of Examination, and that failure by Viva Health, Inc. to so comply may result in sanctions or administrative action; and further, that Viva Health, Inc. shall file with the Department of Insurance within thirty (30) days of the order a statement signed by an appropriate official of the company stating the corrective action taken to comply with the recommendations made in the Report of Examination.

WITNESS My Hand and Official Seal this 11th day of June, 2003.

(SEAL)



Walter A. Bell
Insurance Commissioner
201 Monroe Street, Ste 1700
Montgomery, Alabama 36130
(334) 269-3550

CERTIFICATION

I, _____, _____ (office) of _____ Company, do hereby certify that the Report of Examination of _____ Company as of _____, _____, was filed with all states in which _____ Company is licensed, and with the office of the National Association of Insurance Commissioners.

By: _____

Sworn and subscribed before the undersigned authority on the ____ day of _____, 2003.

Seal

Notary

SENDER: COMPLETE THIS SECTION

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

1. Article Addressed to:

Mr. Brad Rollow
President
Viva Health, Inc.
1400 21st Place South
Birmingham, AL 35205

2. ZIP Code (Copy from service label)

7002 2030 0000 9484 0171

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

COMPLETE THIS SECTION ON DELIVERY

A. Received by (Please Print Clearly)

B. Date of Delivery

6-17-83

C. Signature

X

[Signature]

☐ Agent☐ Addressee

D. Is delivery address different from item 1?

☐ Yes

If YES, enter delivery address below:

☐ No

3. Service Type

☒ Certified Mail☐ Express Mail☐ Registered☒ Return Receipt for Merchandise☐ Insured Mail☐ C.O.D.

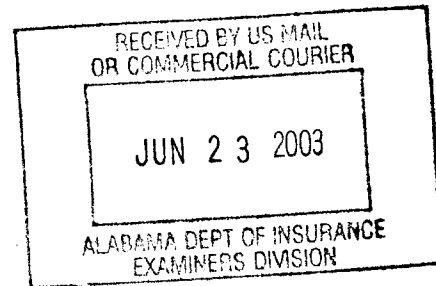
4. Restricted Delivery? (Extra Fee)

☐ Yes



June 19, 2003

Mr. Richard Ford
State of Alabama Department of Insurance
201 Monroe Street, Suite 1700
Post Office Box 303351
Montgomery, Alabama 36130-3351



Dear Mr. Ford:

We are in receipt of the Department of Insurance Order dated June 11, 2003 pertaining to the Financial Condition Examination of VIVA Health as of December 31, 2001. Enclosed please find the following:

1. A signed affidavit form which states that a copy of the adopted report and related orders have been reviewed by VIVA Health's Board of Directors within thirty days of the issuance of the adopted report.
2. A signed affidavit form which states that VIVA Health has filed a copy of the adopted report and related orders with all licensing states and the NAIC.
3. A statement signed by an appropriate official of VIVA Health stating the corrective action taken to comply with the recommendations made in the Report on Examination.

Please do not hesitate to contact me at (205) 558-7480 or via email at lwatkins@uabmc.edu if you have questions or require additional information.

Sincerely,

A handwritten signature in cursive script that reads "Letitia Watkins".

Letitia Watkins, CPA
COO / CFO
VIVA Health

Attachments (3)

CERTIFICATION

I, Letitia Watkins, CFO/COO of VIVA Health, Inc.

Company, do hereby certify that the Report of Examination of VIVA Health, Inc.

Company as of December 31, 2001 and the related orders were reviewed by the

Board of Directors of VIVA Health, Inc. on June 18, 2003.

By: Letitia Watkins

Sworn and subscribed before the undersigned authority on the 18th day of June,

2003.

Seal

Nancy S. Sample
Notary NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Oct 25, 2004
BONDED THRU NOTARY PUBLIC UNDERWRITERS

CERTIFICATION

I, Letitia Watkins, CFO/COO (office) of
VIVA Health, Inc. Company, do hereby certify that the Report of Examination of
VIVA Health, Inc. Company as of December 31, 2001, was filed with all states in
which VIVA Health, Inc. Company is licensed, and with the office of the National Association of
Insurance Commissioners.

By: Letitia Watkins

Sworn and subscribed before the undersigned authority on the 18th day of June, 2003.

Seal

Rene A. Banble
Notary
NOTARY PUBLIC STATE OF ALABAMA AT LARGE
MY COMMISSION EXPIRES: Oct 25, 2004
BONDED THRU NOTARY PUBLIC UNDERWRITERS

**Alabama Department of Insurance (DOI) Report Recommendations &
VIVA Health's Response to Those Recommendations**

1. VIVA Health (the Company) should amend its Bylaws to reflect the change of address of its principal office.

VIVA Health has amended its Bylaws to reflect the address change. The amendment was approved by VIVA Health's Board of Directors at the June 2003 board meeting.

2. The Company should take appropriate actions to ensure compliance with its Bylaws with regard to an annual meeting of the shareholders.

VIVA Health will comply with its Bylaws and conduct an annual shareholder meeting.

3. The Company should take appropriate action to ensure compliance with its Bylaws with regard to the annual election of Directors.

VIVA Health will comply with its Bylaws and annually elect Directors.

4. The Company should designate the time and place of the annual shareholder's meeting to comply with the Company's Bylaws.

VIVA Health will comply with its Bylaws and designate the time and place of the annual shareholder's meeting.

5. The Company should take appropriate actions to ensure compliance with its Bylaws with regard to the annual election of Officers.

VIVA Health did elect its officers at the Board of Directors meeting which occurred on June 27, 2001. We will comply with our Bylaws to annually elect Officers.

6. The Company should take appropriate actions as necessary to ensure compliance with its Bylaws with regard to the principal financial officer of the Company functioning as the Treasurer.

VIVA Health has amended its Bylaws to remove the requirement that the principal financial officer of the Company also function as the Treasurer. The amendment was approved by VIVA Health's Board of Directors at the June 2003 board meeting.

7. The Company should maintain copies of signed annual Conflict of Interest statements for all of its Directors, Officers, and employees in accordance with its conflict of interest policy.

This finding was the result of the Company's inability to locate one person's conflict of interest statements. VIVA Health will comply with this recommendation.

8. The Company's fidelity bond coverage should include the required cancellation provision in accordance with Alabama Code Section 27-21A-6b (1975).

VIVA Health will include a cancellation provision during the next contract renewal period.

9. The Company should complete Schedule S in accordance with NAIC 2001 Annual Statement Instructions – Health as required by the Alabama DOI Regulation Number 97.

VIVA Health will comply with this recommendation in future DOI filings.

10. The Company should provide its enrollees, during the complaint appeal process, the telephone number for the consumer division at the Alabama DOI in accordance with the NAIC Market Conduct Examiners Handbook – Complaint Handling, Standard 2.

VIVA Health will modify its member letter used in the complaint appeal process to include the above referenced telephone number.

11. The Company should maintain complete and accurate records in its home office in accordance with Alabama DOI Regulation Number 79, Section XV.

It has and will continue to be our goal to provide complete and accurate documentation for all DOI requests. VIVA Health will comply with this recommendation.

12. The Company should require CSC to provide evidence that CSC maintains fidelity bond coverage to cover losses due to actions by their personnel.

VIVA Health has obtained a copy of CSC's fidelity bond coverage.

13. The Company should require CSC to carry insurance coverage to restore loss of Company records due to any mishaps.

VIVA Health has requested evidence of this coverage from CSC. However, please note that our parent Company, Triton Health Systems, does have a comprehensive general liability policy which provides coverage in the event of lost business income to VIVA Health resulting from a direct physical loss to the computer systems of CSC. This policy also provides electronic data processing software coverage for equipment loss that might occur on CSC's premises.

14. The Company should submit its certificate securities for valuation by the NAIC SVO in accordance with the Alabama AMIN. CODE 98, Section II (1994).

VIVA Health will comply with this recommendation and ensure that all its certificate securities have been valued by the SVO.

15. The Company should complete Schedule D – Part 1, Column 19 in accordance with the NAIC Annual Statement Instructions – Health.

This finding was the result of the Company not using an administrative symbol with the indicated NAIC 1 designations. VIVA Health will comply with this recommendation in future DOI filings.

16. The Company should classify its bonds in accordance with NAIC Annual Statement Instructions – Health and the NAIC Purposes and Procedures Manual of the NAIC Securities Valuation Office.

VIVA Health will comply with this recommendation in future DOI filings.

17. The Company should revalue its loan-backed securities by using either the prospective or retrospective adjustment methodologies in accordance with the NAIC Accounting Practices and Procedure Manual, SSAP No. 43, paragraphs 9-14.

VIVA Health will comply with this recommendation in future DOI filings.

18. The Company should amortize its bonds using the scientific interest method in accordance with the NAIC Accounting Practices and Procedure Manual, SSAP No. 26, paragraph 6.

VIVA Health will comply with this recommendation in future DOI filings.

19. The Company should keep accurate records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of business transacted in accordance with Alabama DOI Regulation Number 79, Section XVI.

VIVA Health will comply with this recommendation in future DOI filings. Additionally, we purchased Schedule D investment software in early 2003 to facilitate our reporting to the DOI.

20. The Company should amortize bonds to the call date or maturity value date, whichever produces the lowest asset value in accordance with the NAIC Accounting Practices and Procedure Manual, SSAP No. 26, paragraph 6.

VIVA Health will comply with this recommendation in future DOI filings.

21. The Company should disclose the basis at which the bonds are stated and the amortization method in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 26, paragraph 16.

VIVA Health will comply with this recommendation in future DOI filings.

22. The Company should report the initial letters of the months in which interest is payable in the Interest – How Paid column in Schedule D – Part 1 of its future financial filings in accordance with the NAIC Annual Statement Instructions.

VIVA Health will comply with this recommendation in future DOI filings.

23. The Company should not include the paid for accrued interest in its actual cost column in Schedule D – Part 3 of its future financial filings in accordance with the NAIC Annual Statement Instructions.

VIVA Health will comply with this recommendation in future DOI filings.

24. The Company should record its bond transactions on their trade dates instead of their settlement dates in accordance with the NAIC Accounting Practices and Procedures Manual – SSAP No. 26, paragraph 4.

VIVA Health will comply with this recommendation in future DOI filings.

25. The Company should report all realized and unrealized gains and losses on its investments in its Underwriting and Investment Exhibit – Part 4A in accordance with NAIC Annual Statement Instructions.

VIVA Health will comply with this recommendation in future DOI filings.

26. The Company should complete all columns in Schedule D – Part 1 of its future financial filings in accordance with the NAIC Annual Statement Instructions.

VIVA Health will comply with this recommendation in future DOI filings.

27. The Company should obtain the fair market value amounts on its bonds from a source identified in the NAIC Annual Statement Instructions.

VIVA Health will comply with this recommendation in future DOI filings.

28. The Company should reflect all gains and losses from disposed of securities in the appropriate exhibit(s) of future financial filings in accordance with the NAIC Annual Statement Instructions.

VIVA Health will comply with this recommendation in future DOI filings.

29. The Company's repurchase agreement should comply with the NAIC Accounting Practices and Procedures Manual – SSAP No. 45, paragraph 8, regarding proper collateral.

VIVA Health discussed this finding with SouthTrust Bank during the course of the audit and asked that they implement a process to collateralize our overnight repo balance at 102 percent instead of 100 percent. They complied with our request. We are in the process of revising our repurchase agreement to reflect this updated collateralization requirement.

30. The Company should comply with the NAIC Annual Statement Instructions regarding the required disclosure in its Notes to Financial Statements for its repurchase agreement.

VIVA Health will comply with this recommendation in future DOI filings.

31. The Company should comply with Alabama CODE Section 27-41-6 (1975) as amended, which states: "An insurer shall not have at any one time any single investment or combination of investments in or securities of any one person aggregating in cost to the insurer in excess of the

greater of 10 percent of such insurer's assets or the total of its capital and surplus, as shown in the latest annual report of the insurer...less the minimum capital and surplus required of said insurer....”

VIVA Health will comply with this recommendation in future DOI filings.

32. The Company should classify, in future financial filings, the amount paid for the securities via its repurchase agreement as short-term investments in accordance with the NAIC Accounting Practices and Procedures Manual – SSAP No. 45.

VIVA Health will comply with this recommendation in future DOI filings.

33. The Company should report its certificates of deposit in Schedule E – Part 1 and Schedule E – Part 2 in accordance with the NAIC Annual Statement Instructions.

VIVA Health will comply with this recommendation in future DOI filings.

34. The Company should file all outstanding and unclaimed property over five years old with the State Treasurer in an escheat filing in accordance with Alabama CODE Section 35-12-23 and 35-12-31a (1975).

VIVA Health has filed annual Unclaimed Property returns with the State Treasurer's office for all years except 2001. The 2002 return has now been filed and the minimal amount of unclaimed property in excess of five years old was sent in along with the filing. We are now in compliance with this recommendation.

35. The Company should complete, in future financial filings, all columns of Schedule DA - Part 1 in accordance with the NAIC Annual Statement Instructions.

VIVA Health will comply with this recommendation in future DOI filings.

36. The Company should analyze premiums receivable to determine the admissable portion of premiums receivable, and any amounts more than 90 days past due should be reported as nonadmitted.

This finding was the result of the Company admitting a receivable balance of \$2,552 which was in excess of 90 days past due and was fully reserved for in the allowance for

uncollectible accounts. VIVA Health will comply with this recommendation in future DOI filings.

37. The Company should nonadmit, in future financial filings, all capitation chargebacks that do not meet all requirements of the NAIC Accounting Practices and Procedures Manual SSAP No. 84, Section 14.

VIVA Health will comply with this recommendation in future DOI filings.

38. The Company should include all required affiliates on Schedule Y – Part 1 of the Annual Statement as defined by the NAIC Annual Statement Instructions.

VIVA Health will comply with this recommendation in future DOI filings.

39. The Company should report management fees by listing them as individual expenses and not reporting the fees as one-line expenses on the Underwriting and Investment Exhibit – Part 3 as required by the NAIC Annual Statement Instructions.

VIVA Health will comply with this recommendation in future DOI filings.

40. The Company should report its deferred tax asset in future Annual Statements in the related reporting period in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 10.

This finding was the result of the Company not having booked a deferred tax asset as of 12/31/01. The 2001 Annual Statement filing deadline was prior to the audit conducted by PriceWaterhouseCoopers, L.L.C. During that audit conducted in March 2002, the determination was made to book a deferred tax asset based on our Company's financial strength. We have been in compliance with this recommendation since the first quarter of 2002.

41. The Company should require its opining actuary to revise his trend procedure used with the twelve month rolling average PMPM costs to accurately match the underlying trend period with the age of the twelve month rolling average PMPM's.

VIVA Health has discussed this finding with the external actuary and he will comply.

42. The Company should require its actuary to support the filed rates based on the Company's and/or industry claim experience, claim trends, and expenses. Backup data for each of these key assumptions, based on industry and/or the Company's experience, should be available for review when requested by the Alabama DOI.

It has and will continue to be our goal to provide all requested documentation in a timely manner to the DOI. VIVA Health will comply with this recommendation.

43. The Company should require that the actuarial workpapers be better documented and be sufficient for another actuary to follow. Descriptions of methods, assumptions, and reasonability checks, along with appropriate support, should be incorporated into the workpapers. Reasonability checks should include, but not be limited to, the results of the individual product estimates of ultimate claims payable.

VIVA Health has discussed this finding with the external actuary and he will comply.

44. The Company should be more diligent in providing correct data to the actuary.

VIVA Health did provide certain claims information to the external actuary which was subsequently revised. Although the revisions were not material, we will make every effort in the future to avoid having to revise data once it has been sent to the actuary.

45. The Company should require its actuary to include in his actuarial workpapers exhibits that compare his indicated reserves to the carried reserves of the Company. Any deviation from the midpoint should be supported as management's best estimate of the liability in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 55, paragraph 11.

VIVA Health has discussed this finding with the external actuary and he will comply.

46. The Company should classify, in its Underwriting and Investment Exhibit Part 3, expenses incurred in the adjusting, recording and paying of claims as Claim Adjustment Expenses and its expenses incurred in the investing of funds and pursuit of investment income as Investment Expenses in accordance with the NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual, SSAP No. 70.

VIVA Health will comply with this recommendation in future DOI filings.

47. The Company should have all paid claims detail readily available for review and the paid amounts per the detail should reconcile with the reported numbers in the Annual Statement.

It has and will continue to be our goal to provide all requested documentation in a timely manner to the DOI. VIVA Health will comply with this recommendation.

48. The Company should, in future financial filings, correctly complete its Underwriting and Investment Exhibit Part 2B in accordance with the NAIC Annual Statement Instructions.

VIVA Health will comply with this recommendation in future DOI filings.

49. The Company should complete, in future financial filings, its Underwriting and Investment Exhibit, Part 2C, Sections A and B in accordance with the NAIC Annual Statement Instructions.

VIVA Health will comply with this recommendation in future DOI filings.

50. The Company should maintain all documentation for premiums received in advance in accordance with Alabama CODE Section 27-27-29(a) (1975), as amended.

The documentation referenced above had previously been received via hard copy but was discontinued since it was not of practical use. We revised our procedures in early 2002 and worked with the employer to develop an electronic detail of the above referenced monthly premium payments for enrollment reconciliation purposes. Because of this, we have been in compliance with this recommendation since early 2002.

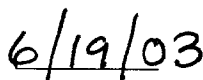
51. The Company should correctly classify its guaranty fund assessment reserve in its future financial filings in accordance with the NAIC Annual Statement Instructions - Health.

VIVA Health will comply with this recommendation in future DOI filings.

The above information represents the corrective actions taken by VIVA Health to comply with the recommendations made in the Report on Examination as of December 31, 2001.



Letitia Watkins, COO / CFO



Date